



Virginia
Retirement
System

VRS Update

House Appropriations Committee
Compensation and Retirement Subcommittee
January 20, 2022

Presented by Patricia S. Bishop,
VRS Director



Agenda



VRS Overview



Investments



Funded Status



Introduced Budget and Contribution Rates



Separating DB and DC Contribution Rates



2022 Legislation



Budget



Virginia
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VRS Overview

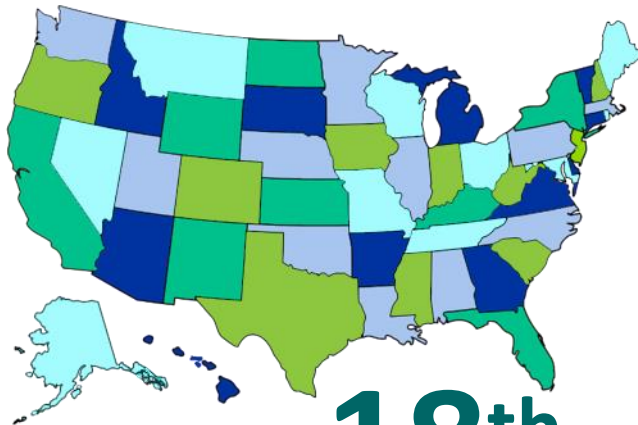


VRS Overview



751,471
active and retired members

As of June 30, 2021

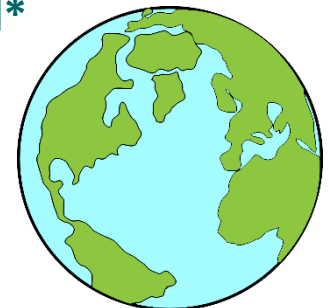


18th largest

public or private pension system
in the United States*

41st largest

public or private pension system
in the world*



* As ranked by *Pensions & Investments* in 2021

VRS Total Membership as of June 30, 2021



	Plan 1	Plan 2	Hybrid	Total
Teachers	63,188	29,682	56,923	149,793
Political Subdivision Employees	38,007	31,072	39,534	108,613
State Employees	29,073	13,805	30,808	73,686
State Police Officers' Retirement System (SPORS)	1,018	929	0	1,947
Virginia Law Officers' Retirement System (VaLORS)	2,466	5,357	0	7,823
Judicial Retirement System (JRS)	175	47	231	453
Total Active Members	133,927	80,892	127,496	342,315

**Total
Active Members
342,315**

**Retirees/
Beneficiaries
224,973**

**Inactive/Deferred
Members
184,183**

**VRS Total
Population
751,471**

Constitution of Virginia, Article X, Section 11:

“The funds of the retirement system shall be deemed separate and independent trust funds, shall be segregated from all other funds of the Commonwealth, and shall be invested and administered solely in the interests of the members and beneficiaries thereof.”

Internal Revenue Code Plan Qualification



- The Virginia Retirement System is a qualified plan under Internal Revenue Code § 401(a).
- Being a qualified plan provides federal tax advantages to participants and the fund.
- Tax benefits for qualified plans include pre-tax contributions and tax-exempt earnings for the fund's investments.
- There are requirements a plan must meet to maintain its status as a qualified plan.
- If a pension plan does not meet these requirements, it can lose its plan qualification and the related tax benefits.

26 United States Code § 401(a):

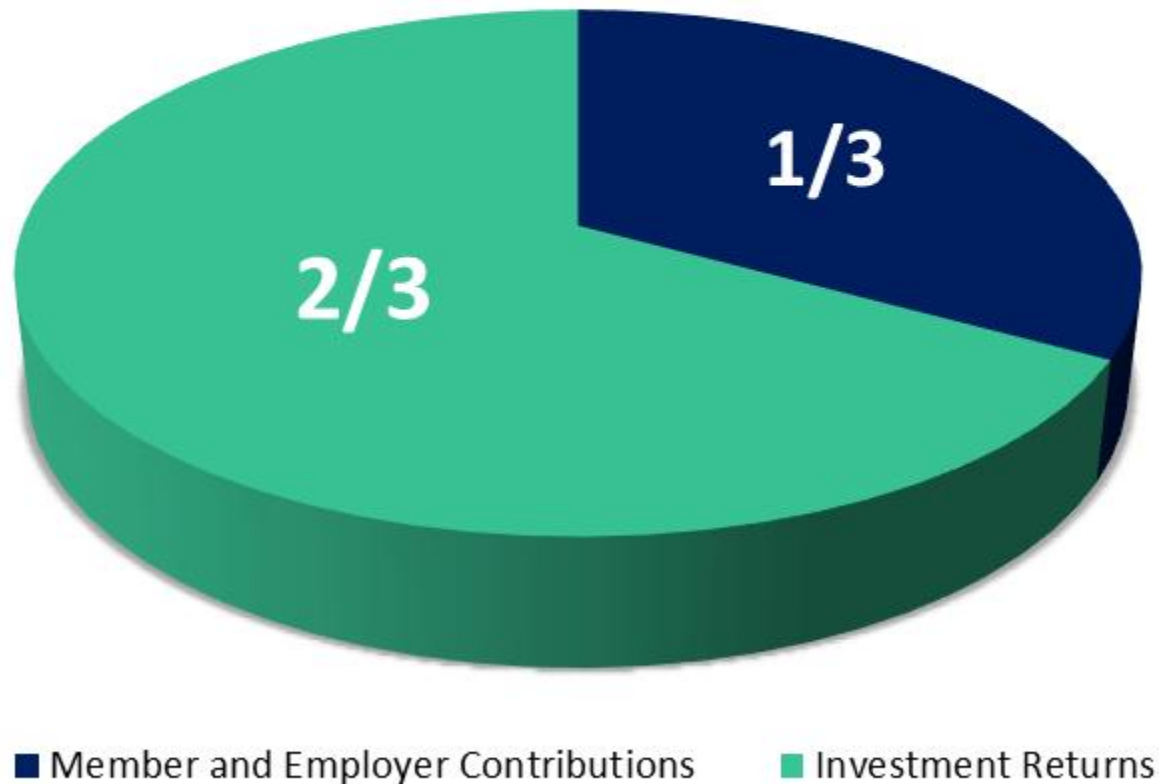
“A trust ... shall constitute a qualified trust under this section ... if under the trust instrument it is impossible ... for any part of the corpus or income to be (within the taxable year or thereafter) used for, or diverted to, purposes other than **for the exclusive benefit of his employees or their beneficiaries....**” [Emphasis added.]



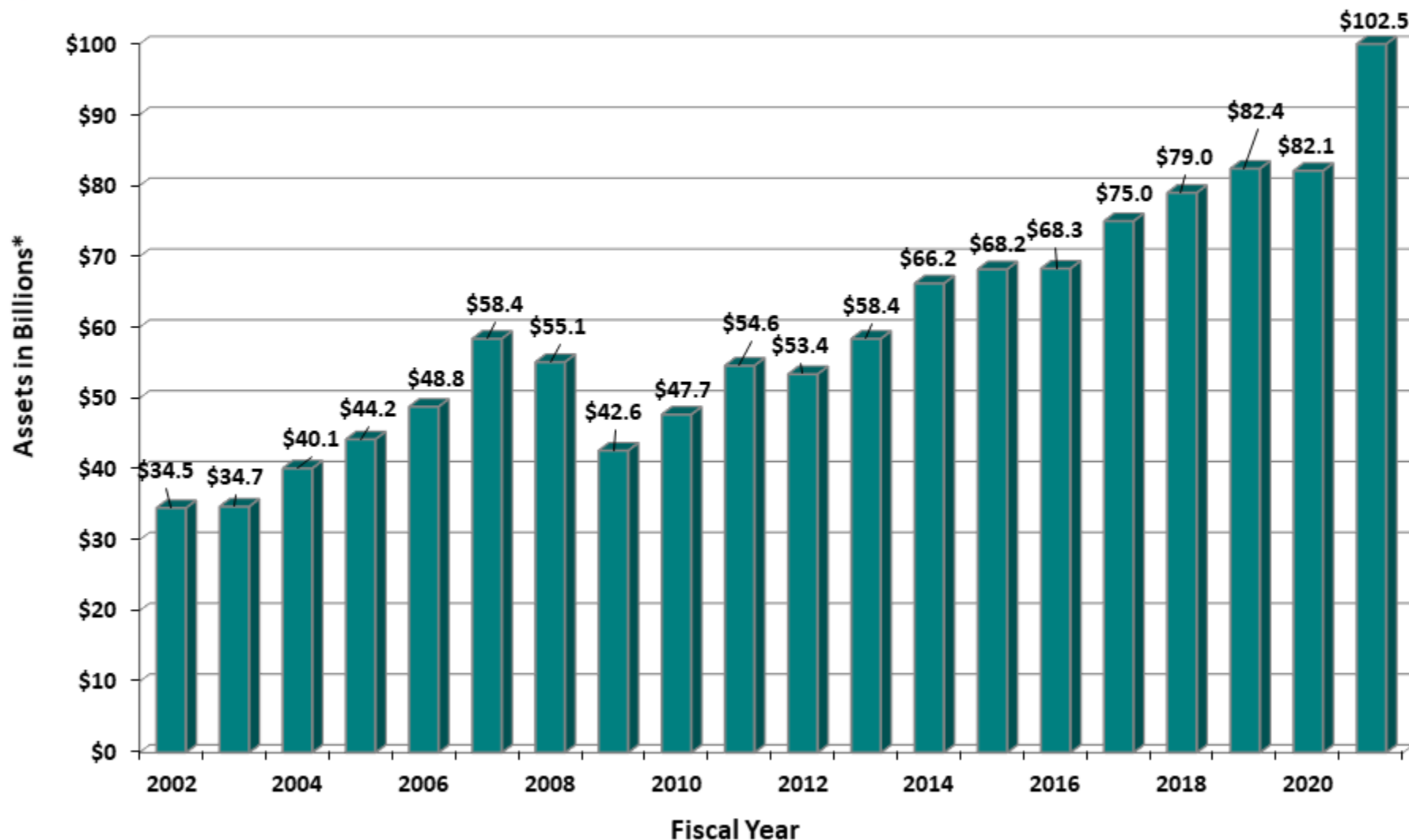
Investments



**Approximate Source of Defined Benefit Plan
Funding**

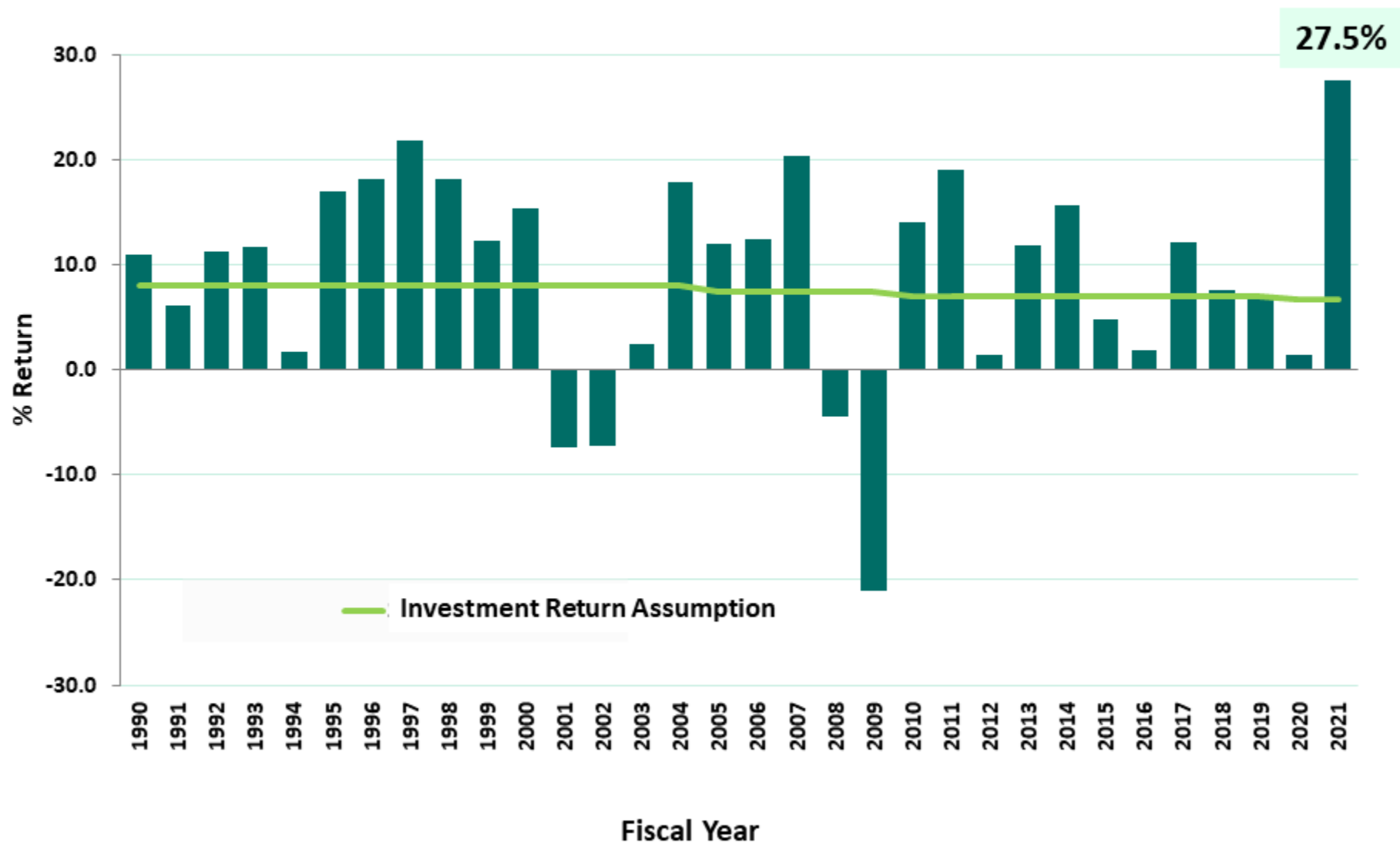


VRS Net Position

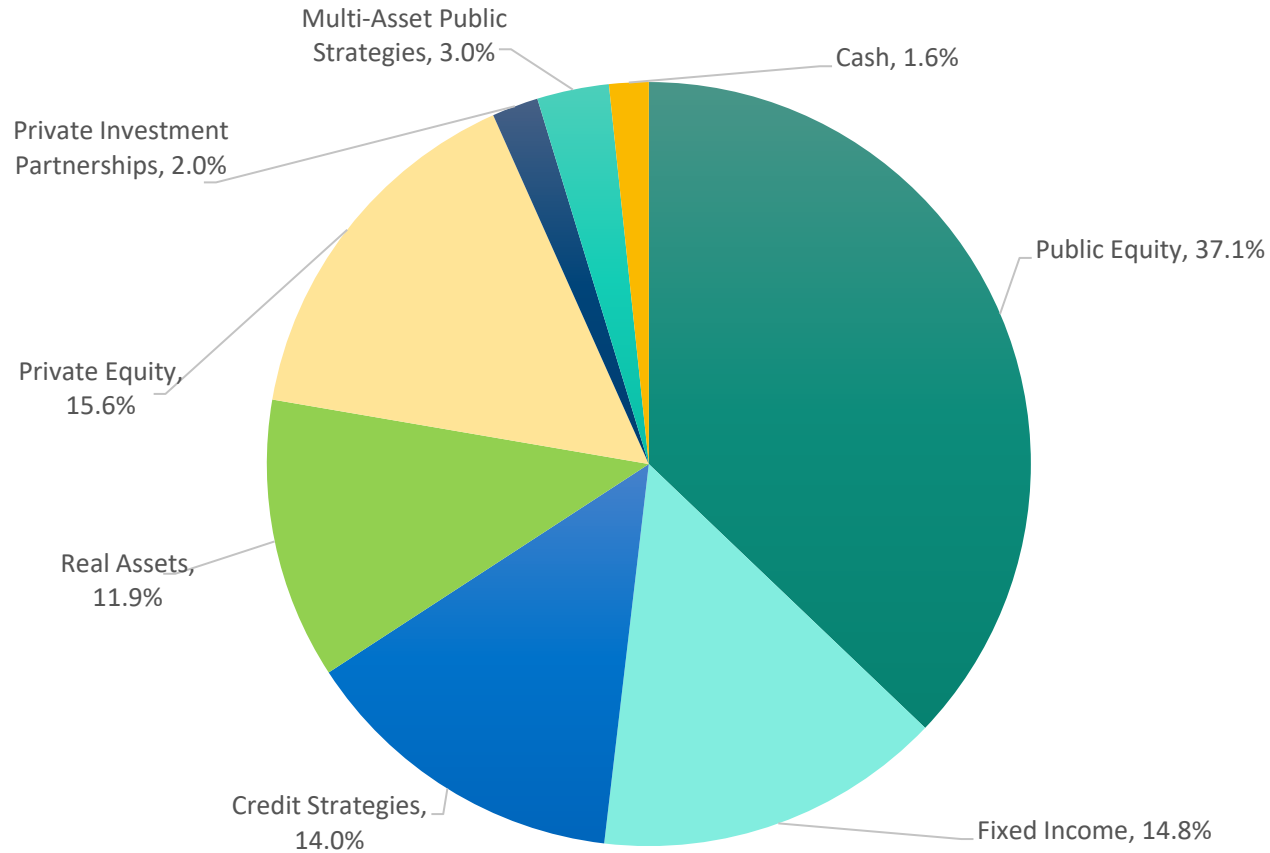


* Values for all years in this table were restated in FY 2020 to reflect the implementation of GASB Statement No. 84.

VRS Fiscal Year Returns



Asset Allocation as of June 30, 2021



Percent of Total Fund

Source: Bank of New York Mellon

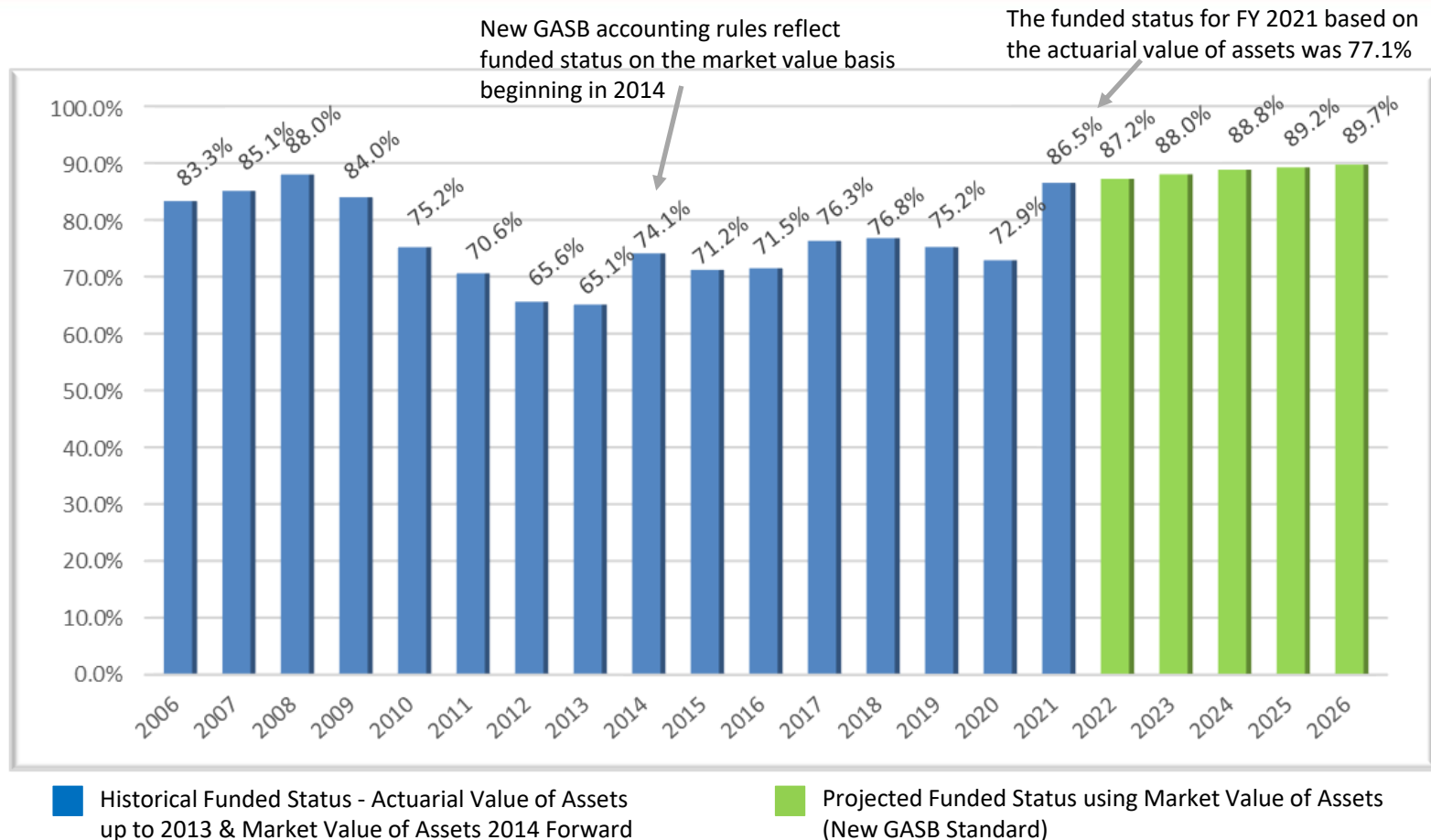


Virginia
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Funded Status



Funded Status: State



State Plan
Unfunded
Liability as of
6/30/2021

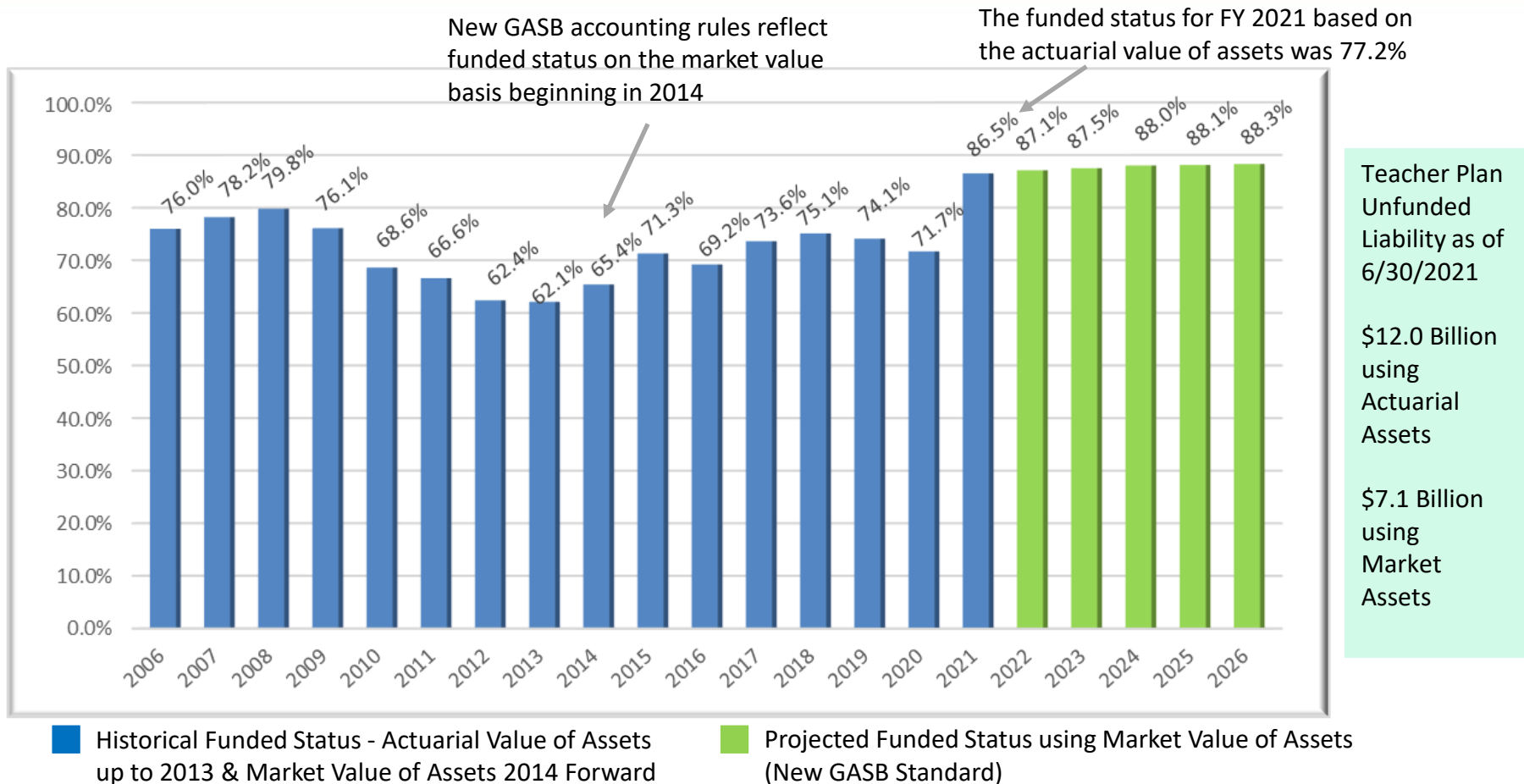
\$6.1 Billion
using
Actuarial
Assets

\$3.6 Billion
using
Market
Assets

Notes:

- Projected funded status based on assumed investment returns of 6.75% and inflation of 2.5%.
- GASB Accounting rules reflect funded status using Market Value of Assets effective 6/30/14 for Plan Reporting and 6/30/15 for Employer Reporting.
- Projections do not include the Governor's proposed contribution rates and one-time infusion.

Funded Status: Teachers



Notes:

- Projected funded status based on assumed investment returns of 6.75% and inflation of 2.5%.
- GASB Accounting rules reflect funded status using Market Value of Assets effective 6/30/14 for Plan Reporting and 6/30/15 for Employer Reporting.
- Projections do not include the Governor's proposed contribution rates and one-time infusion.

Unfunded Pension Liabilities and Funded Status by Plan (Dollars in Thousands)

System	2020		2021	
	UAAL based on AVA (Dollars in Thousands)	Funded Status	UAAL based on AVA (Dollars in Thousands)	Funded Status
State	\$ 6,417,661	75.1%	\$ 6,112,670	77.1%
Teachers	\$ 13,278,662	73.9%	\$ 12,021,814	77.2%
SPORS	\$ 325,590	73.0%	\$ 389,314	70.7%
ValORS	\$ 712,025	68.5%	\$ 738,351	69.3%
Judicial	\$ 111,633	83.5%	\$ 132,738	81.9%
Total State-wide systems	\$ 20,845,571	74.2%	\$ 19,394,887	76.9%
Political Subdivisions	\$ 3,437,211	86.4%	\$ 3,480,933	87.2%
Total Fund	\$ 24,282,782	77.1%	\$ 22,875,820	79.4%

System	2020		2021	
	UAAL based on MVA (Dollars in Thousands)	Funded Status	UAAL based on MVA (Dollars in Thousands)	Funded Status
State	\$ 6,981,267	72.9%	\$ 3,615,554	86.5%
Teachers	\$ 14,385,554	71.7%	\$ 7,129,718	86.5%
SPORS	\$ 351,662	70.9%	\$ 276,498	79.2%
ValORS	\$ 758,084	66.4%	\$ 538,229	77.6%
Judicial	\$ 128,417	81.1%	\$ 60,256	91.8%
Total State-wide systems	\$ 22,604,984	72.0%	\$ 11,620,255	86.2%
Political Subdivisions	\$ 4,073,047	83.9%	\$ 609,465	97.8%
Total Fund	\$ 26,678,031	74.8%	\$ 12,229,720	89.0%

Unfunded OPEB Liabilities and Funded Status by Plan (Dollars in Thousands)



System	2020		2021	
	UAAL based on MVA (Dollars in Thousands)	Funded Status	UAAL based on MVA (Dollars in Thousands)	Funded Status
Group Life	\$ 1,728,029	51.8%	\$ 1,111,390	68.5%
HIC State	\$ 899,066	12.2%	\$ 836,804	19.9%
HIC Teachers	\$ 1,286,380	10.1%	\$ 1,277,095	13.2%
VSDP	\$ (241,350)	197.0%	\$ (361,816)	244.7%
HIC Locals in Aggregate	\$ 52,204	31.9%	\$ 49,554	40.1%
HIC Constitutional Officers	\$ 27,069	15.9%	\$ 26,572	20.1%
HIC Social Services	\$ 12,646	13.3%	\$ 12,488	15.8%
HIC Registrars	\$ 450	21.9%	\$ 421	28.6%
VLDP Teachers	\$ 447	86.6%	\$ (486)	109.5%
VLDP Political Subdivisions	\$ 433	88.5%	\$ (1,163)	123.2%

Note: Unfunded liabilities and funded status using market value of plan assets.



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Introduced Budget and Contribution Rates



Strategies to Enhance Funding



VRS continues to support strategies to lower the legacy unfunded liabilities of the plans.

Reducing unfunded liabilities reduces plan costs by avoiding compounded interest that is charged when amortizing over long periods of time.

Paying down unfunded liabilities on a more accelerated basis may also help to cushion any potential uncertainty that could occur with future market downturns.

Employer Contribution Rates and Funding Requirements for Statewide Plans



Plan	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2023 Governor's Proposed
State	14.46%	14.46%	14.13%	14.46%
SPORS	26.33%	26.33%	29.98%	29.98%
VaLORS	21.90%	21.90%	24.60%	24.60%
JRS	29.84%	29.84%	30.67%	30.67%
Teachers	16.62%	16.62%	14.76%	16.62%
Total Estimated Employer Contributions	\$2,238,472,000	\$2,351,408,000	\$2,233,507,000	\$2,426,173,000
General Fund	\$977,577,000	\$1,027,328,000	\$990,033,000	\$1,067,437,000
Non-General Fund	\$1,260,895,000	\$1,324,080,000	\$1,243,474,000	\$1,358,736,000

- Estimated funding for FY 2022 is based on actual FY 2021 payroll with increases as outlined in the Governor's budget. Estimated funding for FY 2023 is based on estimated FY 2022 payroll projected forward with plan assumptions. Actual funding will be based on payrolls in effect at time of billing.
- Maintaining higher rates would collect an additional \$345 million for the Teacher plan over the biennium which could increase funded status by nearly 70 basis points and lower unfunded liabilities by nearly \$382 million without increasing budget.

OPEB Contribution Rates

System	2019 Actuarial Valuation Fiscal Years 2021/2022	2021 Actuarial Valuation Fiscal Years 2023/2024	Governor's Proposed Budget Fiscal Year 2023
Group Life	1.34%	1.19%	1.34%
HIC State	1.12%	1.04%	1.12%
HIC Teachers	1.21%	1.21%	1.21%
VSDP	0.61%	0.56%	0.61%
HIC Locals in Aggregate	0.59%	0.72%	0.72%
HIC Constitutional Officers	0.36%	0.36%	0.36%
HIC Social Services	0.38%	0.37%	0.38%
HIC Registrars	0.39%	0.32%	0.39%
VLDP Teachers	0.47%	0.47%	0.47%
VLDP Political Subdivisions	0.83%	0.85%	0.85%

Proposed Budget: Benefit Plan Cash Infusions



- The proposed budget contains provisions to deposit \$923,998,000 on or before June 30, 2023, into the VRS trust fund to address the unfunded liabilities associated with each plan.*
- The funds were allocated to provide equivalent assets to increase the funded status of each plan by 1%.

Plan	Proposed Cash Infusion	Estimated Cost Savings of Next 20 Years **
State	\$270,000,000	\$498,832,000
Teacher	\$545,000,000	\$1,006,902,000
SPORS	\$13,500,000	\$24,942,000
ValORS	\$24,500,000	\$45,264,000
JRS	\$7,700,000	\$14,226,000
GLI	\$37,500,000	\$69,282,000
HIC State	\$10,500,000	\$19,399,000
HIC Teacher	\$14,800,000	\$27,343,000
HIC Constitutional Officers	\$340,000	\$628,000
HIC Social Services	\$150,000	\$277,000
HIC Registrars	\$8,000	\$15,000
Total	\$923,998,000	\$1,707,110,000

For example, the Teacher plan infusion will save about \$1 billion in future interest payments on the outstanding legacy unfunded and going forward could potentially lower Teacher rates by approximately 0.40% of covered payroll.

* Contingent on meeting the revenue forecast.


** Cost savings due to interest savings on outstanding unfunded liabilities




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Separating DB and DC Contribution Rates





VRS Board requested legislation to streamline the administration of each component of the Hybrid Retirement Plan by separating the defined benefit (DB) and defined contribution (DC) rates. (HB 473 and SB 70)




The proposed legislation would separate the DC component of the Hybrid Retirement Plan from the total employer rate, which is currently a blend of DB and DC rates.

Separating DB and DC Contribution Rates: Proposed Legislation




Reduce the administrative burden of reconciliation efforts as the hybrid plan becomes the dominant plan.



Potentially allow members the flexibility to change their voluntary contributions more often (currently limited to quarterly).

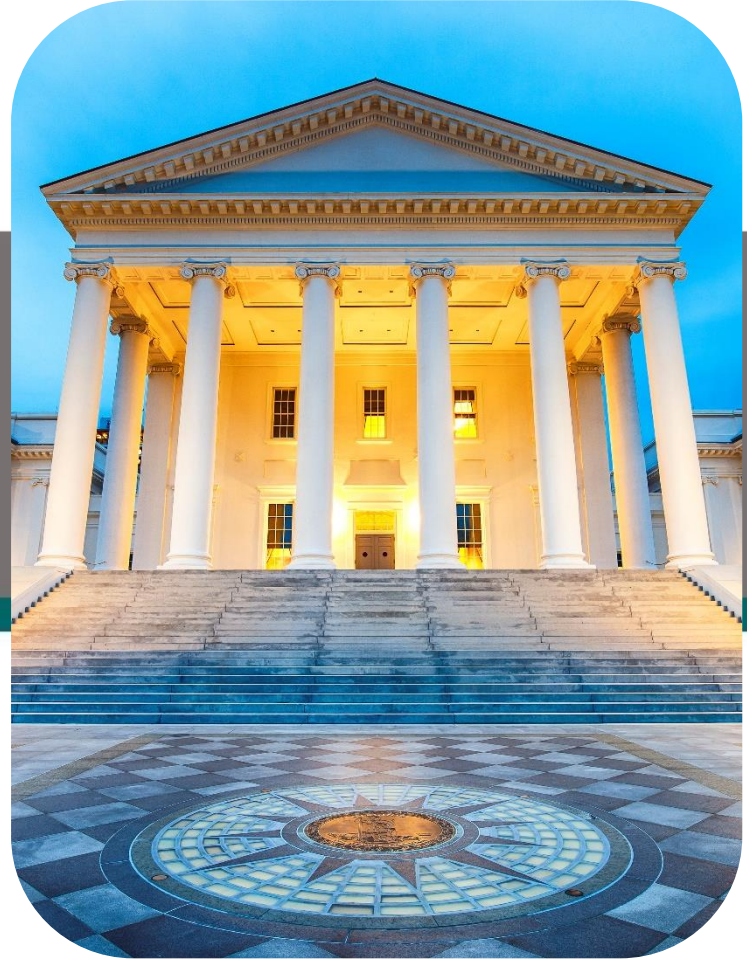
Allow member contributions to be invested more quickly.

- 
- Allows employers to administer the defined contribution component in similar way they administer other supplemental plans.
 - A delayed effective date of July 1, 2024 coincides with the next rate-setting and allows time for programming, testing and communications.



Virginia
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2022 Legislation



2022 VRS-Related Bills

VRS-Requested Bills

Bill Number	Patron	Description
HB 473	Bulova	Separates the employer contribution for employers participating in the Hybrid Retirement Plan into defined benefit and defined contribution components. The bill has a delayed implementation date of July 1, 2024, to coincide with new contribution rates.
SB 70	Newman	

2022 VRS-Related Bills

Divestment Bills

Bill Number	Patron	Description
HB 645	Kory	Requires the Virginia Retirement System and local retirement systems to divest from fossil fuel companies by January 1, 2027
SB 213	McPike	

2022 VRS-Related Bills

Hazardous Duty Benefits Bills- § 51.1-138

Bill Number	Patron	Description
HB 131	Cherry	Adds 911 dispatchers to the list of local employees eligible to receive enhanced retirement benefits for hazardous duty service. Under current law, localities may provide such benefits to first responders, including firefighters and emergency medical technicians, and certain other hazardous duty positions. The bill provides that such benefits would be available only to dispatchers hired starting on or after January 1, 2022. See also HB 56, HB 162, HB 854, SB 585.
HB 854 SB 585	Reid Reeves	Adds 911 dispatchers to the list of local employees eligible to receive enhanced retirement benefits for hazardous duty service. Under current law, localities may provide such benefits to first responders, including firefighters and emergency medical technicians, and certain other hazardous duty positions. See also HB 131, HB 56, HB 162.

2022 VRS-Related Bills

Hazardous Duty Benefits Bills- § 51.1-138

Bill Number	Patron	Description
HB 56	Wiley	Requires each political subdivision participating in the Virginia Retirement System and each county or city participating in the Virginia Retirement System to provide retirement benefits comparable to the benefits provided to state police officers to juvenile detention specialists. See also HB 131, HB 162, HB 854, SB 585.
HB 162	Runion	Adds animal control officers to the list of local employees eligible to receive enhanced retirement benefits for hazardous duty service. Under current law, localities may provide such benefits to first responders, including firefighters and emergency medical technicians, and certain other hazardous duty positions. See also HB 56, HB 131, HB 854, SB 585.
SB 507	Lewis	Requires localities to use the 1.85 percent multiplier for determining the annual retirement allowance for local law-enforcement officers receiving benefits similar to those provided to State Police officers. Currently, localities may elect to provide a 1.7 percent multiplier in lieu of the 1.85 percent multiplier.

2022 VRS-Related Bills

Hazardous Duty Benefits Bills

Bill Number	Patron	Description
HB 593	VanValkenburg	Provides that when a member of the State Police Officers' Retirement System or the Virginia Law Officers' Retirement System or a local law-enforcement officer who is eligible for similar benefits dies before retirement by suicide or in the line of duty, the retirement allowance payable to his beneficiary shall include any hazardous duty supplement for which the member or local law-enforcement officer was eligible.
HB 834	Wilt	Provides that service in the Fire and Rescue Department of the Virginia Air National Guard shall be treated as service in a hazardous position for purposes of the hazardous duty supplement or increased retirement multiplier in the State Police Officers' Retirement System, in the Virginia Law Officers' Retirement System, or as a local law-enforcement officer eligible for similar benefits. The bill applies to creditable service earned before July 1, 2022, but only allows additional benefits to be paid prospectively.

2022 VRS-Related Bills

Return to Work Bills

Bill Number	Patron	Description
SB 17	Hackworth	Allows a retired law-enforcement officer to continue to receive his service retirement allowance during a subsequent period of full-time employment by a state or local law-enforcement agency after a 12-month break in service following retirement.
SB 18	Cosgrove	Provides that a retired law-enforcement officer employed by a local school division as a school security officer on January 1, 2020, who had a bona fide break in service of at least one month between retirement and employment as a school security officer, is not required to have the 12-month break in service that would otherwise be required by law to continue receiving his service retirement allowance while employed full time as a school security officer.

2022 VRS-Related Bills

JRS Bills

Bill Number	Patron	Description
SB 83	Stanley	<p>Increases the mandatory judicial retirement age from 73 to 75. Allows judges who would be subject to mandatory retirement during the 2022 General Assembly session to revoke their notice of retirement.</p> <p>The bill contains an emergency clause.</p>
SB 382	McDougle	<p>Increases, for the purposes of determining benefits provided under the Judicial Retirement System, the retirement multiplier from 1 percent to 1.7 percent. The increase would apply only to judges appointed on or after July 1, 2022, who are participants in the hybrid retirement program, and who are at least age 55 at the time of appointment.</p>

2022 VRS-Related Bills

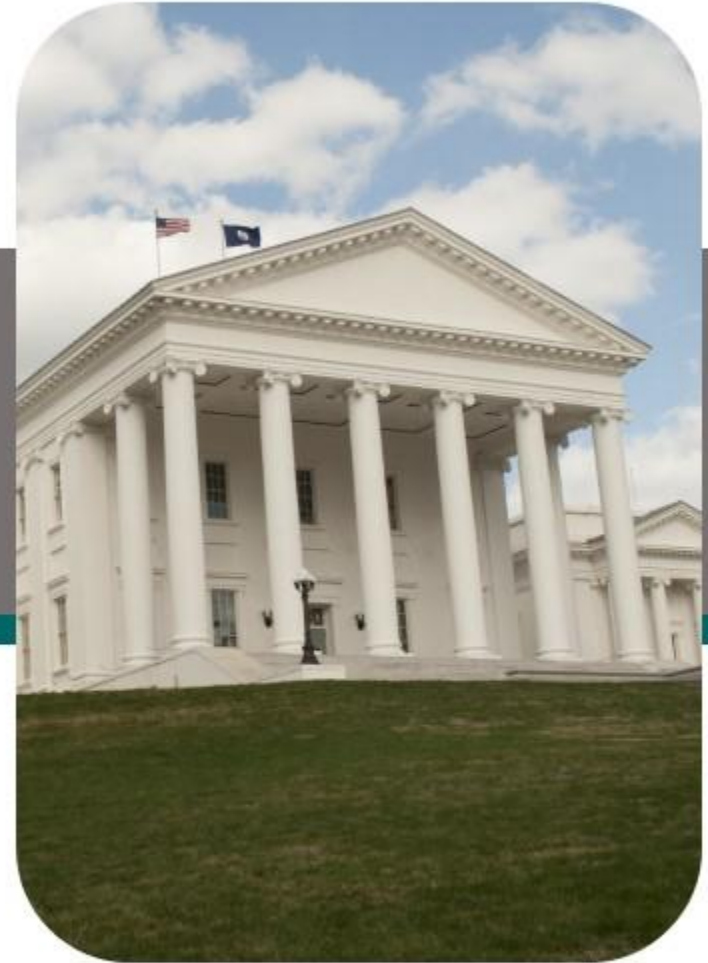
Other Bills

Bill Number	Patron	Description
HB 338	Simon	Sets out a section in Title 51.1 (Pensions, Benefits, and Retirement) that is currently carried by reference only. The bill also repeals three obsolete sections in Title 58.1 (Taxation). This bill is a recommendation of the Virginia Code Commission.
HB 1119	Campbell	Provides that a law-enforcement officer shall not lose his benefits in any retirement system administered by the Board of Trustees of the Virginia Retirement System upon being convicted of a felony, unless such felony was (i) the result of gross negligence or intentional misconduct by such officer or (ii) resulted in any pecuniary benefit for such officer.
SB 349	Surovell	Provides that if the court enters an order to distribute any Virginia Retirement System managed defined contribution plan, the Virginia Retirement System shall, if ordered by the court, calculate gains and losses from the valuation date through the date of distribution of the benefits.
SB 468	DeSteph	Provides that, for any medical review of a claim made pursuant to the provisions of the Line of Duty Act, the Virginia Retirement System shall require that such review be conducted by a doctor, nurse, or psychologist who is licensed in Virginia or a contiguous state. The bill has a delayed effective date of July 1, 2023.



Virginia
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Budget



VRS Rates and Funding

Item #	Description
269	<p>\$923,998,000 on or before June 30, 2023 to reduce the unfunded liabilities of the State Plan, the Teacher Plan, SPORS, VaLORS, JRS, State HIC, Teacher HIC, GLI plan, and HIC for constitutional officers, local social services employees, and registrars. Contingent on not needing a revenue re-forecast.</p> <p>This is a voluntary deposit and in the event of an economic downturn, the deposit could be reduced or eliminated if needed for liquidity relief.</p>
483	Fund the required Board-certified contribution rates for JRS, SPORS, VaLORS and OPEBs. Fund the prior biennium's higher contribution rates for State (14.46% vs. 14.13%) and Teachers (16.62% vs. 14.76%), as well as for any OPEB plan rates that decreased.
483	Fund LODA premiums at \$681.84 per covered employee.



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Serving those who serve others